

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**  
of the Charitable Gift Annuity Business  
of  
**Providence Health System - Washington**  
**Seattle, Washington**

**DECEMBER 31, 2004**

Providence Health System - Washington  
Order No. G 07-18  
Exhibit A

**SALUTATION**

Seattle, Washington  
February 26, 2007

The Honorable Mike Kreidler, Commissioner  
Washington State Office of Insurance Commissioner (OIC)  
Insurance Building–Capital Campus  
302–14<sup>th</sup> Avenue SW  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business (CGAB), an examination was made of the corporate affairs and financial records of the CGAB of

**Providence Health System - Washington**

of

Seattle, Washington

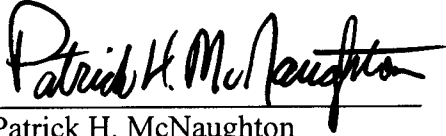
hereinafter referred to as “the Corporation” or PHS at its office, 506 Second Avenue, Seattle, WA 98104.

This report of examination is respectfully submitted showing the condition of the CGAB of PHS as of December 31, 2004.

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CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Providence Health System-Washington of Seattle, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of Providence Health System-Washington as of December 31, 2004.

A handwritten signature in black ink, reading "Patrick H. McNaughton". The signature is written in a cursive style with a horizontal line underneath.

Patrick H. McNaughton  
Chief Examiner

2-26-2007

Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2000 through December 31, 2004. The financial statements of the Corporation are presented on a consolidated basis, however, the scope of our examination focused only on the transactions and operations of the CGAB. The Corporation's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGAB reporting. The results of the examination are commented upon in the various sections of this report. In addition, the Corporation's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Seattle office of the Corporation by examiners from the state of Washington.

## **INSTRUCTIONS**

The examiners reviewed the Corporation's Annual Reports as part of the statutory examination. This review was performed to determine if the Corporation completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the Corporation's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

No exceptions were noted and no instructions are included in this examination report.

## **COMMENTS AND RECOMMENDATIONS**

### **1. Entity Name Change**

On April 11, 2002, the OIC notified the Corporation that the Corporation's request of name change from "Sisters of Providence" to "Providence Health System-Washington" had been approved. Accordingly, the name was changed in the Annual Report, restated Bylaws, Internal Revenue Service Form 990, statement of actuarial opinion, and financial statements. However, the custodial account, used for the charitable gift annuities held by the Bank of America, uses the "Sisters of Providence Washington Gift Annuity Reserve" name for the Corporation's account.

**It is recommended that the Corporation coordinate with Bank of America to change the name in the statement to "Providence Health System-Washington Gift Annuity Reserve."**

## **ORGANIZATION PROFILE**

**History:** The Corporation is one of the various organizations comprising Providence Health System. The Corporation is a not-for-profit entity organized and existing under the laws of the state of Washington. The Corporation provides scientific research and educational, charitable and other activities, services and programs related to its health care, educational and social service facilities and services. The Corporation includes the entities that comprise the Washington Region, the Alaska Region and the Health System Office.

**Territory and Plan of Operation:** On December 11, 1989, the OIC granted Sisters of Providence a Certificate of Exemption to conduct a CGAB in the state of Washington. Sisters of Providence changed its name to Providence Health System – Washington (the Corporation), and the name change was approved by the OIC in April 2002. There were sixty in-force annuity contracts as of December 31, 2004: forty-eight were issued to residents of the state of Washington and twelve were issued to residents of the state of Alaska.

**Total Net Assets:** The Corporation's total net assets as of December 31, 2004 were \$771,750,000. This amount included unrestricted net assets of \$738,666,000. The minimum unrestricted net assets requirement pursuant to RCW 48.38.010(6) was satisfied.

**Growth:** The development of the Corporation for the past five years is reflected in the following schedules. All information was compiled from the Corporation's audited financial statements for the calendar years ending December 31.

**Schedule 1 – Statement of Financial Position**  
(in thousands of dollars)

<b>Fiscal Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Total Net Assets</b>	<b>Total Net Assets Allocated Into:</b>		
				<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
<b>2004</b>	\$1,371,217	\$599,467	\$771,750	\$738,666	\$30,320	\$2,764
<b>2003</b>	1,293,723	611,183	682,540	652,741	27,431	2,368
<b>2002*</b>	1,261,172	674,134	587,038	577,123	7,638	2,277
<b>2001*</b>	1,269,259	703,796	565,463	552,800	10,386	2,277
<b>2000*</b>	3,066,812	1,232,056	1,834,756	1,745,439	71,510	17,807

**Schedule 2 – Statement of Activities and Changes in Net Assets**

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002*</u>	<u>2001*</u>	<u>2000*</u>
Total revenues	\$1,412,002	\$1,390,909	\$1,284,836	\$1,170,102	\$3,241,010
Total expenses	<u>1,322,792</u>	<u>1,295,407</u>	<u>1,263,261</u>	<u>1,136,598</u>	<u>3,163,866</u>
Increase (decrease) in net assets	89,210	95,502	21,575	33,504	77,144
Net assets at beginning of year	<u>682,540</u>	<u>587,038</u>	<u>565,463</u>	<u>531,959</u>	<u>1,757,612</u>
<b>Net assets at end of year</b>	<b><u>\$771,750</u></b>	<b><u>\$682,540</u></b>	<b><u>\$587,038</u></b>	<b><u>\$565,463</u></b>	<b><u>\$1,834,756</u></b>
Number of gift annuity contracts at end of year	<u>60</u>	<u>56</u>	<u>93</u>	<u>84</u>	<u>80</u>

\* According to the 2002-2001 audited financial statements, the Corporation adopted a new accounting pronouncement effective in 2002. As a result, certain reclassifications have been made to prior year amounts to conform to the current year presentation. This caused beginning and ending net assets to vary between 2000 and 2001.

**AFFILIATED ORGANIZATIONS**

The Provincial Council of the Sisters of Providence controls various corporations including Providence Health System – Washington. In addition, the Sisters of Providence comprises various associations and fund-raising foundations to provide apostolic works in healthcare, social services, and education.

**MANAGEMENT AND CONTROL**

**Management:** The Board of Directors (BOD) exercises general governance and control of the mission and business affairs of the Corporation. The members of the Corporation, Provincial Superior, and Provincial Council of the Sisters of Providence-Mother Joseph Province, appoint the BOD by majority vote.

**Board of Directors:** The directors as of December 31, 2004 were as follows:

Lynn Chappell, SP  
 Lucille Dean, SP  
 Kevin Fickenschner, MD  
 Orcilia Zuniga Forbes, Ph.D  
 Mary Corita Heid, RSM  
 Carol Pacini, LCM

Dana Rasmussen  
 Jim Roberts, MD  
 Peter Snow  
 E. Kay Stepp  
 Rich Umbdenstock  
 Robert Wilson

**Officers:** In accordance with the Bylaws, the officers of the Corporation include a chairperson of the board, a president/chief executive officer (CEO), one or more vice president(s), a secretary and a treasurer. The chairperson and the president are appointed by the Corporation Members. The vice president, secretary and treasurer are elected by the BOD. The officers as of December 31, 2004 were as follows:

Chair of the Board -	E. Kay Stepp
President/CEO -	John F. Koster, MD
Vice President/CAO -	Jan Jones
Vice President/Finance, & Treasurer -	Mike Butler
Corporate Secretary -	Jeffrey W. Rogers

**Tax Status:** The Corporation is exempt from federal income taxes under Section 501c(3) of the Internal Revenue Code, except on unrelated business income.

**Conflict of Interest:** Each interested or affected person, as specifically defined in the Conflict of Interest Policy and Procedure, is required to submit a Confidentiality Statement and Questionnaire at the time of hire, and annually thereafter. The conflict of interest statement is reviewed by the BOD or the appropriate person identified in the Conflicts of Interest Procedures. No exceptions were noted.

### **CORPORATE RECORDS**

The BOD meets at least five times a year to discuss business which is pertinent to the Corporation. Minutes of the meetings of the directors documented the approval of the Corporation's transactions and events. No exceptions were noted.

### **STATEMENT OF ACTUARIAL OPINION**

A consulting actuary with Milliman, Inc., reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion (SAO) which stated that he is a member of the American Academy of Actuaries and meets its qualification standards. His SAO states that the annuity contract reserves computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code were \$1,087,580. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was properly reported in the Corporation's financial statements. (See FINANCIAL INFORMATION – Balance Sheet)

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of the Corporation. Total annuity investments as of December 31, 2004 were



\$1,580,935, and consisted of money market funds, bonds and stocks. Investments were recorded at fair value.

### **SUBSEQUENT EVENTS**

There were no material events which impacted the Corporation between the examination date and the last day of our field work.

### **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

## FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of the Corporation as of December 31, 2004:

### Balance Sheet

	<u>Balance Per Annual Report</u>	<u>Adj.</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$152,343,000			\$ 152,343,000
Assets whose use is limited	275,392,065			275,392,065
CGA assets	1,580,935			1,580,935
Other Assets	941,901,000			941,901,000
<b>Total Assets</b>	<u><u>\$1,371,217,000</u></u>		<u><u>\$0</u></u>	<u><u>\$ 1,371,217,000</u></u>
<b><u>LIABILITIES</u></b>				
Current Liabilities	\$188,591,000			\$188,591,000
CGA Reserves	1,196,339			1,196,339
Other Liabilities	409,679,661			409,679,661
<b>Total Liabilities</b>	<u><u>599,467,000</u></u>		<u><u>0</u></u>	<u><u>599,467,000</u></u>
<b><u>NET ASSETS</u></b>				
Unrestricted	738,666,000			738,666,000
Temporarily restricted	30,320,000			30,320,000
Permanently restricted	2,764,000			2,764,000
<b>Total Net Assets</b>	<u><u>771,750,000</u></u>		<u><u>0</u></u>	<u><u>771,750,000</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,371,217,000</u></u>		<u><u>\$0</u></u>	<u><u>\$ 1,371,217,000</u></u>

### Statement of Financial Activity and Changes in Net Assets

	<u>Balance Per Annual Report</u>	<u>Adj.</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Total revenues	\$1,412,635,000			\$1,412,635,000
Total expenses	(1,323,425,000)			(1,323,425,000)
Increase (decrease) in net assets	89,210,000			89,210,000
Net assets at beginning of year	682,540,000			682,540,000
<b>Net assets at end of year</b>	<u><u>\$771,750,000</u></u>		<u><u>\$0</u></u>	<u><u>\$771,750,000</u></u>

### **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Corporation during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; and John Gaynard, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner; both from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Orlando R. Gabriel", is written over a horizontal line.

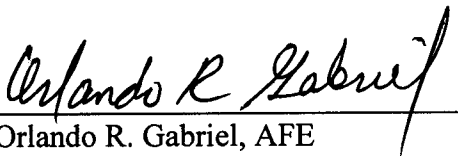
Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

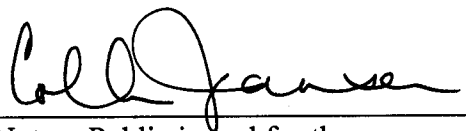
**STATE OF WASHINGTON        }**  
   **} ss**  
**COUNTY OF KING            }**

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the Corporation's CGAB was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

  
\_\_\_\_\_  
Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 26<sup>th</sup> day of February, 2007.

  
\_\_\_\_\_  
Notary Public in and for the  
State of Washington,  
Residing at Seattle.

